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Soviet Oil Exports to the West in 1979 and Outlook for Deliveries in 1980

An Intelligence Assessment

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An Intelligence Assessment

*Research for this report was completed
on 5 March 1980.*

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**Soviet Oil Exports to the
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Key Judgments

The volume of Soviet exports of crude oil and refined products to all non-Communist countries fell by 14 percent in 1979 to an estimated 1.27 million barrels per day (b/d). Exports to hard currency trading partners declined by 21 percent, but higher prices pushed up estimated foreign exchange earnings by about 60 percent, to \$9 billion.

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Two factors seem responsible for the cutback in deliveries. The harsh Soviet winter of 1978-79 undoubtedly led to the diversion of some petroleum products from Western markets to meet domestic and East European needs. Then, when sales of refined products rebounded in the second half of 1979, exports of crude oil slumped sharply.

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We anticipate that Soviet crude oil production will level off in 1980 at 12 million b/d or less before beginning to decline. The increment in production (about 100,000 to 200,000 b/d) will not be enough to meet increased domestic demand and higher scheduled deliveries to Communist trading partners. Thus, the Soviet Union will be under great pressure to cut exports to the non-Communist world.

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Oil exports to non-Communist countries should, in fact, fall substantially this year—perhaps by as much as 400,000 to 500,000 b/d. Hard currency customers face a drop of 50 percent or more from last year's level.

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Soviet export plans reportedly call for a sizable reduction in crude oil deliveries, and there are reports of cutbacks in product exports as well. Given (a) high prices for gold and oil, (b) a thriving market for arms, and (c) our projection of a leveling off in Soviet imports paid for in hard currency, we believe that the USSR could afford to cut oil exports to hard currency customers to under 500,000 b/d and still achieve a balance in its current account.

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Soviet Oil Exports to the West in 1979 and Outlook for Deliveries in 1980

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Export Performance in 1979

We estimate that gross Soviet exports of crude oil and refined products to non-Communist countries fell by 14 percent to 1.27 million barrels per day (b/d) in 1979. Soviet oil exports to OECD (Organization for Economic Cooperation and Development) countries—including transshipments of Libyan and Iraqi crude—dropped by 18 percent, to roughly 1.14 million b/d (see figure 1)



exports to non-OECD non-Communist customers rose by an estimated 34,000 b/d to 128,000 b/d in 1979.

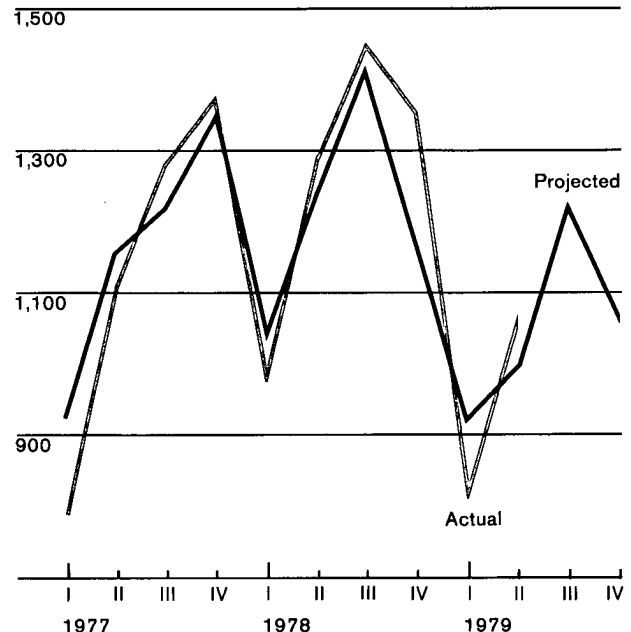
Reasons for the Decline. The USSR, in all likelihood, had planned to reduce the amount of crude oil and refined products sold to non-Communist countries in 1979 because it expected a tighter domestic oil balance. Actual deliveries were probably well below original plans. Petroleum output last year fell about 150,000 b/d short of plan, and the harsh Soviet winter of 1978-79, combined with the Iranian cutoff of natural gas exports to the USSR, led to unexpected shortages of oil products in the USSR and Eastern Europe. Moscow probably was forced to divert exports of refined products away from Western partners. Fortunately, the need to cut exports further came at a time when oil prices were rising rapidly. Moscow, therefore, could reduce export allocations and still enjoy higher revenues.

¹ Our estimate for *total* net oil exports in 1979 is within 1 percent of the 3 million b/d figure quoted last December by Deputy Chairman Morozov of Soyuznefteeksport (the Soviet foreign trade organization responsible for oil sales).

Figure 1

USSR: Oil Exports to the OECD Countries

Seasonally Adjusted
Thousand b/d



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Composition of Oil Exports. The mix between crude oil and oil products in Soviet exports to the OECD was relatively unchanged from 1978, with the share accounted for by crude oil falling slightly to 60 percent of the total. The composition of exports changed markedly during the course of the year, however. Shipments of oil products fell off sharply in the first six months as harsh winter conditions increased the demand for these commodities in the USSR, first to meet current needs and later to replenish depleted stocks. Partner country data available for the second half of 1979 suggest a rebound in product deliveries, presumably after the USSR was able to satisfy its domestic requirements and the needs of its CEMA (Council for Mutual Economic Assistance) allies. We currently estimate that deliveries of products to OECD nations fell by 16 percent in 1979. []

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According to partner country statistics, *crude oil* deliveries remained close to the 1978 level during the first half of 1979 but may have declined substantially thereafter (see appendix B for partner country import statistics). For the year we estimate a decline of 20 percent, yielding an overall year-to-year decline in total crude oil and oil product deliveries to the OECD of roughly 18 percent. []

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Pricing and Sales Arrangements. Sales of Soviet crude oil to non-Communist countries are generally conducted under annual contracts with prices pegged essentially to the world market. []

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[] By tying its prices to those on the world market, the USSR capitalized on the rapid rise in OPEC prices; it received, on average, \$22 per barrel last August compared with \$14 per barrel in August 1978.² []

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Soviet sales of refined products are also made under annual contracts with prices linked to those on the world market. As a result, the average unit value of product exports to West Germany, France, Italy,

² Average unit value of crude oil exports as reported by Italy, France, the United Kingdom, and the Netherlands.

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Japan, the Netherlands, and the United Kingdom in August 1979 was more than double the August 1978 value. West German trade data through October 1979 indicate that the average unit value of residual fuel oil imported from the USSR moved in concert with prices paid other suppliers, albeit at a discount of as much as 15 percent. Prices paid for Soviet heating oil also moved with world market prices, but the USSR in this case received a premium of up to 15 percent above the average price the German importers paid to other suppliers. []

Sales on the Spot Market. There is some direct evidence that the USSR diverted oil exports to the more lucrative spot market. []

[] a comparison of Soviet and Dutch trade data for all goods—oil and nonoil—indicates a rapid rise in Soviet oil exports to the Netherlands for reexport, possibly via sales made on the Rotterdam spot market. Thus, official Soviet trade statistics show a tripling in value of all goods exported to the Netherlands in the second quarter of 1979 compared with the second quarter of 1978, followed by a large rise for July-September. Such increases are not reflected in the Netherlands import data, which include only those goods purchased for domestic consumption. []

Reexports of Middle East Oil. The Soviet Union pays hard currency for Middle Eastern oil to be delivered to third countries. The principal sources of supply have been Iraq and Libya []

Table 2

Million US \$

Comparison of Soviet and Dutch Trade Data

	1978				1979		
	I	II	III	IV	I	II	III
Total exports reported by the USSR	76	99	134	144	112	325	505
Total imports reported by the Netherlands ¹	105	98	131	206	119	171	297

¹ Differences in Dutch and Soviet trade reporting procedures could account for cases where Soviet exports "exceed" Dutch imports. If Soviet exports to the Netherlands, for example, are reexported to West Germany, Moscow would treat the transaction as a sale to the Netherlands while the Dutch would consider it as a Soviet export to West Germany. []

Hard Currency Sales. In 1979, the USSR exported an estimated 954,000 b/d of crude oil and refined products for hard currency. This figure is 21 percent lower than the 1.21 million b/d exported for hard currency in 1978. Despite the drop in volume, earnings from these exports were about 60 percent higher than in 1978 and accounted for roughly half of all hard currency earnings from merchandise trade. In 1979, gross hard currency earnings from oil were estimated at \$9 billion; in 1978, receipts totaled \$5.7 billion. Roughly \$4 billion of the 1979 earnings came from crude oil and the remainder from exports of refined products. []

Outlook for 1980

The volume of oil exports to non-Communist countries should fall substantially this year. How much will depend on the interaction of several factors, including (a) the domestic oil balance, (b) the priority attached to meeting the needs of other Communist countries, (c) the volume of reexports of Middle Eastern oil, (d) Soviet hard currency requirements, and (e) OPEC pricing decisions. At the margin, Soviet policy on oil exports would balance the cost of reduced domestic

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increase in production (less than 200,000 b/d). Indeed, consumption is expected to rise by some 500,000 b/d this year. As a result, we estimate that the exportable surplus will be at most about 2.7 million b/d—down 300,000 b/d from 1979. []

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Obligations to Communist Countries. Soviet crude oil and oil product exports to Communist countries, nonetheless, are likely to rise slightly this year, to more than 1.9 million b/d.⁴ The USSR is already committed to increasing the volume of its crude oil and oil product deliveries to Eastern Europe (excluding Yugoslavia) by about 3 percent, to 1.6 million b/d; Yugoslav imports may remain at about 100,000 b/d. Soviet deliveries of oil and oil products to Cuba, in part through a swap arrangement with Venezuela, could reach 220,000 b/d in 1980, up slightly from the 210,000 b/d delivered last year. Deliveries to Vietnam and North Korea are expected to remain at or close to last year's levels. []

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Imports From the Middle East. Moscow will not be able to count on increased imports from the Middle East to cover the drop in its own export surplus. In fact, the USSR faces the prospect of smaller oil purchases from Iraq and Libya. []

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consumption of oil against the benefits to be gained from exports to client states and sales to the non-Communist world. []

Domestic Production. The domestic oil balance is expected to tighten further in 1980. Production gains have fallen markedly in recent years; the 1979 increase of about 280,000 b/d was the smallest absolute increase since 1956. The 1980 goal of 12.1 million b/d has been revised downward from the original plan of 12.4 million to 12.8 million b/d, but even this target probably will not be reached. Chances are good that Soviet oil production will peak this year at less than 12 million b/d before beginning to fall. It is unlikely that conservation efforts can compensate for such a small

Sales to Non-Communist Countries. The drop in the Soviet export surplus for oil and oil products combined with (a) increased deliveries to Communist countries and (b) the likely reduction of purchases from the Middle East implies a reduction in exports to the non-Communist world of 400,000 b/d to 500,000 b/d. The brunt of the drop will fall on Soviet hard currency trade. []

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⁴ Almost all of these sales are covered under bilateral clearing arrangements, although Poland and Hungary will receive 16,000 and 20,000 b/d, respectively, in above-plan deliveries in return for which they will send the USSR "hard goods" (those which could otherwise be sold to the West). Romania will pay hard currency for an estimated 20,000 b/d this year. []

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[REDACTED]

[REDACTED]

Faced with a reduced export availability, the USSR may be attempting to ration its 1980 oil exports through price. [REDACTED]

The expected leveling off of crude production in concert with rising demand at home and reduced purchases from the Middle East argues for a major falloff in crude oil sales; deliveries, in fact, began to fall off in the second half of last year. Product sales, in all likelihood, will also be down substantially. [REDACTED]

[REDACTED]

Moscow is in a good position to absorb the hard currency loss resulting from a major fall in oil exports. Based on our expectations regarding overall hard currency requirements in 1980, including a likely

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range for gold sales, we judge that to balance its current account Moscow will need to rely on oil exports for \$4-6 billion in 1980. Assuming an average 1980 crude oil and petroleum product sales price of \$37 per barrel, the USSR would need to market less than 500,000 b/d to earn \$6 billion; earnings of \$4 billion would require sales of slightly under 300,000 b/d.⁷ In either case sales would be far less than the 954,000 b/d marketed for hard currency in 1979.

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Appendix B

Partner Country Data

The Organization for Economic Cooperation and Development publishes data on the volume of Soviet crude oil and refined petroleum imported by Western nations on a quarterly basis. The countries whose imports are reported by the OECD account for the bulk of Soviet petroleum shipments to the West. The data on imports of crude oil and refined petroleum are presented in tables B-1 and B-2.

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The tables show (a) imports of each nation in 1977 and 1978, together with the annual rates of imports in the first two quarters of 1978 and 1979 for each country for which data were available (OECD has not yet published third-quarter data), (b) percentage changes in the imports of crude oil and of petroleum products between the first quarters of 1978 and 1979 and between the second quarters of the two years, and (c) two sets of total import figures—including and excluding Finnish imports.

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Since the OECD defines an import as any good that crosses the political—rather than the customs—boundary of a country, the data presented here may differ from data on imports published by the individual countries included in the tables.

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Table B-1

Barrels Per Day

USSR: Exports of
Crude Oil and Feedstocks

	1977	1978	1978 1st Q.	1978 2nd Q.	1979 1st Q.	1979 2nd Q.	Percent Change	
							1979 1st Q./ 1978 1st Q.	1979 2nd Q./ 1978 2nd Q.
Belgium	NA	15,740	15,320	32,480	...	240	-100.0	-99.3
Denmark	27,360	31,420	33,920	36,160	24,320	37,920	-28.3	4.9
France	62,760	62,260	56,000	66,000	101,280	99,680	80.9	51.0
Ireland	...	...	...	...	1,440	4,960		
Italy	176,240	154,800	83,440	191,200	87,520	136,080	4.9	-28.8
Netherlands	2,400	6,900	3,040	5,360	8,960	22,080	194.7	311.9
United Kingdom	66,220	59,100	54,000	63,360	48,720	60,560	-9.8	-4.4
West Germany	80,380	103,520	80,560	90,880	61,840	136,320	-23.3	50.0
EC Total	NA	433,740	326,280	485,440	334,080	497,840	2.4	2.6
Austria	37,440	39,320	41,760	50,000	25,600	31,680	-38.7	-36.6
Finland	151,460	137,720	109,440	152,000	141,120	160,560	28.9	5.6
Greece	33,060	32,700	...	26,640	8,880	26,560		-0.3
Norway	11,060	13,700	9,200	17,760	9,120	17,520	-0.9	-1.4
Portugal ²	19,980	15,960	11,920	22,720	NA	NA	NA	NA
Spain	12,160	8,380	14,400	7,760	15,200	20,240	5.6	160.8
Sweden	7,120	34,340	26,480	38,720	34,320	17,440	29.6	-55.0
Switzerland	6,760	7,580	7,760	9,840	1,120	1,120	-85.6	-88.6
Japan	1,440	1,180	320	720	640	400	100.0	-44.4
United States	3,200	760	...	...	...	...	0	0
Total ³	NA	709,420	535,640	788,880	570,080	773,360	6.4	-2.0
Total ⁴	NA	571,700	426,400	636,880	428,960	612,800	0.6	-3.8

Source: Organization for Economic Cooperation and Development,
International Energy Agency, *Quarterly Oil Statistics*, Second
Quarter 1979, 1979/No. 3 Paris, pp. 134-285.

¹ Belgium did not report countries of origin for 1977 oil imports.

² Portugal had not reported any 1979 oil-import data when the
OECD volume was prepared.

³ Excluding Portugal.

⁴ Excluding Finland and Portugal.

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Table B-2

Barrels Per Day

USSR: Exports of Petroleum Products

	1977	1978	1978 1st Q.	1978 2nd Q.	1979 1st Q.	1979 2nd Q.	Percent Change	
							1979 1st Q./ 1978 1st Q.	1979 2nd Q./ 1978 2nd Q.
Belgium ¹	NA	54,740	40,320	51,760	12,080	9,200	- 70.0	- 82.2
Denmark	15,460	19,380	10,640	10,880	6,080	4,400	- 42.9	- 59.6
France	32,360	32,740	17,760	29,360	7,920	15,200	- 54.4	48.2
Ireland	8,000	8,140	3,680	12,240	1,600	10,880	- 56.5	- 11.2
Italy	17,300	24,140	13,200	28,080	9,680	8,640	- 26.7	- 69.2
Netherlands ²	43,640	99,680	97,360	81,840	48,560	NA	- 50.1	NA
United Kingdom	27,040	30,780	27,440	28,320	22,880	9,520	- 16.6	- 66.4
West Germany	80,500	74,180	80,320	57,440	37,440	59,440	- 53.4	3.5
EC Total	NA	343,780	290,720	299,920	146,240	NA	- 49.7	NA
Austria	1,080	200	400	80	160	80	- 60.0	0
Finland	61,640	57,460	35,840	44,880	41,040	55,280	14.5	23.2
Greece	9,820	9,400	6,240	8,160	...	3,040	- 100.0	- 62.7
Norway	5,500	2,980	2,960	3,120	2,720	800	- 8.1	- 74.4
Portugal ³	40	...	...	...	NA	NA	NA	NA
Spain	620	520	...	1,680	720	240		- 85.7
Sweden	63,800	52,080	25,200	50,880	7,280	73,840	- 71.1	45.1
Switzerland	44,260	54,300	50,480	50,800	35,440	23,120	- 29.8	- 54.5
Japan	10,420	9,940	6,480	12,000	7,120	2,240	9.9	- 81.3
United States	10,540	8,120	5,120	5,120	...	160	- 100.0	- 96.9
Total ⁴	NA	439,100	326,080	394,800	192,160	276,080	- 41.1	- 30.1
Total ⁵	NA	381,640	290,240	349,920	151,120	220,800	- 47.9	- 36.9

Source: Organization for Economic Cooperation and Development, International Energy Agency, *op.cit.*, pp. 134-285.

¹ Belgium did not report countries of origin for 1977 oil product imports.

² Netherlands had not reported any 1979 2nd quarter oil-product-import data when the OECD volume was prepared.

³ Portugal had not reported any 1979 oil-product-import data when the OECD volume was prepared.

⁴ Excluding the Netherlands and Portugal.

⁵ Excluding Finland, the Netherlands, and Portugal.

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